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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 001356

SIPDIS

AF/S FOR B. NEULING
SENIOR AFRICA DIRECTOR C. COURVILLE

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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [PREL](#) [ZI](#)
SUBJECT: ZIMBABWE RUNNING ON EMPTY

REF: A. REF A: HARARE 1346
[B](#). REF B: HARARE 1292
[C](#). REF C: HARARE 1269

Classified By: Ambassador Christopher Dell for reasons 1.5 b/d

[1](#)1. (C) Summary. Fuel supplies in Zimbabwe are at critical levels as a result of the GOZ,s gross economic mismanagement, forcing commuters and business to rely on the black market if they want to remain mobile. Zimbabwe has faced period fuel crunches for several years, but in the past month supplies of the vital fluid have all but disappeared from the formal market. Government attempts to revive fuel deliveries have proved fruitless, with average commuters and farmers paying the price. Nonetheless, Harare,s relatively busy rush hour and the number of fuel hawkers testifies to the resiliency of Zimbabwe,s black market. End Summary.

Forex Squeeze Triggers Fuel Shortages

[1](#)2. (SBU) Zimbabwe has faced period fuel shortages for several years, but the situation appears to have worsened recently with the state-owned fuel distributor, National Oil Company of Zimbabwe (NOCZIM), reportedly failing to deliver fuel to the private sector for the past two months. Lines at gas stations have lengthened in the past month, as drivers begin to queue following even the slightest rumor of an expected fuel delivery. Groups that had enjoyed special fuel facilities supplied by NOCZIM have even run dry; most recently Embassy contacts report the facility for medical doctors ran out of fuel on September 28.

[1](#)3. (SBU) The only gas stations with reliable supplies are those owned by Caltex that sell fuel in exchange for hard currency-denominated coupons. Under this scheme, Zimbabweans with access to hard currency purchase the coupons at a rate of US\$0.90 per liter and then redeem them at eight special Caltex stations nationwide. This system is frequently used by Zimbabweans in the diaspora, who pay for the coupons and then have relatives in Zimbabwe retrieve the vouchers. A less reliable source of fuel are five stations nation-wide allowed by the GOZ in July to sell fuel directly for hard currency. These stations operate on a cash basis and lack access to credit, making their supply stream haphazard. Average stations that sell gas in local currency at the official price of Z\$23,300 per liter of diesel have probably no hope of securing supplies in the foreseeable future, despite the GOZ,s more than 100-percent price hike in early September.

[1](#)4. (C) While NOCZIM is widely viewed as one of the GOZ,s worst-managed parastatals, the recent fuel crisis appears to have been caused by the Reserve Bank,s recent squeeze on foreign currency to pay \$120 million to the IMF to avert expulsion from that body. Like other oil importers, Zimbabwe,s ability to import fuel is directly linked to its export and foreign currency-generating potential. The Reserve Bank,s theft of foreign currency accounts (ref C) and maintenance of an overvalued exchange rate have caused the present crisis, but an abysmal tobacco harvest and dim prospects for turn-arounds in the agriculture and tourism sectors suggest that recurrent fuel crises are likely to continue indefinitely. The spokesman for the Petroleum Marketers Association of Zimbabwe was recently quoted in the press as saying, &the bottom line is that there is no foreign currency and the situation is extremely bad.8

[1](#)5. (C) The government, meanwhile, appears unable to address either the short or long-term causes of the fuel crunch. Incredulously, Mugabe told a group of war veterans on September 28 that the fuel situation would improve in the next few days, according to media reports. The GOZ appears to be counting on securing bank credit to import fuel. Embassy contacts report that the local Renaissance Bank has agreed to finance 3 million liters of fuel to be delivered within the next week. (N.B. Based on US Department of Energy statistics for 2002, the 3 million liters will only satisfy Zimbabwe's demand for less than three days.) Meanwhile, negotiations with South Africa,s Rand Merchant Bank have stalled over the GOZ's inability to provide collateral for the loan, according to independent media reports. Recent GOZ

pronouncements in favor of seizing land and firms owned by whites (ref A and B) further highlight the long road ahead to revive exports.

Sucking the Economy Dry(

16. (SBU) The old adage that oil is the lifeblood of an economy proves apt amidst Zimbabwe's severe economic contraction. The fuel shortages and price hikes for those with access to fuel have been passed on to businesses and ultimately consumers. Inflation, already officially clocked at an annualized rate of 265 percent in August, is likely to climb even more unless fuel prices are put in check. Local economist John Robertson forecasts that annualized inflation could peak at more than 1,000 percent in the second quarter of next year unless the foreign currency shortage) and presumably the associated fuel shortages) eases.

17. (SBU) No longer able to secure fuel at a preferential government facility, commuter bus operators have begun to pass along fuel price hikes to commuters. According to press reports, bus fares have risen in lock-step with the GOZ's announced fuel price hike; fares from the high-density suburb of Chitungwiza to the city center jumped from Z\$11,000 to Z\$25,000 in early September. (N.B. The official exchange rate is currently about Z\$26,000:US\$, while the parallel rate continues to slide to about Z\$85,000.) Some commuters unable to afford the new rate have been stranded. The GOZ has responded to these fair price hikes by forbidding transport operators from increasing rates; according to a September 21 article in the Herald, police have fined some 770 bus drivers for increasing fares without government approval.

18. (SBU) Agriculture is probably the sector most critically affected, potentially sowing the seed for another failed planting season and necessitating continued high levels of donor assistance over the coming season (septel). With rains expected to start in mid-October, now is traditionally the time that farmers prepare their fields for planting and purchase inputs to help their crops grow throughout the season. The fuel crisis, however, has prevented some distributors from transporting seed and fertilizers) two commodities also in short supply due to the lack of hard currency) to farms.

19. (SBU) Critical local services have also been affected by the lack of fuel. Harare municipal clerk, Nomutsa Chideya, told a parliamentary committee in mid-September that NOCZIM had not delivered fuel to the city council in the past month, according to press reports. Consequently, he reported that the city had only enough fuel for one fire truck and that we have to pray there will not be a crisis.⁸ Officials in Zimbabwe's second city, Bulawayo, are also without fuel. The opposition MDC Mayor Japhet Ndabeni-Ncube told reporters on September 22 that the city's entire fleet of municipal vehicles was stranded and that only five of the city's 12 ambulances were fueled.

(And Driving Black Market

10. (C) Nonetheless, there is no shortage of vehicles on Harare's streets, testifying to the resiliency and pervasiveness of Zimbabwe's black market; the Harare city council has even publicly admitted to sourcing fuel on this technically illegal market. Touters signaling fuel with the peace sign and young men carrying jerry cans abound on certain Harare streets. Information compiled from local Embassy staff paints a picture of how Harare residents are coping with and even making a living off the country's fuel shortage. Recognizing the profit opportunities in this shortage, local pundits have developed the term individual profit opportunities⁸ or IPOs to refer to money-making schemes associated with fuel and other goods.

11. (C) The secondary market for Caltex fuel coupons appears to be the most secure and sure way for small and medium-scale peddlers to get fuel on the black market. In this scheme, Zimbabwe's enterprising residents ask family or friends abroad to buy the coupons at US\$0.90 per liter. The coupon recipient can either purchase and resell the fuel on the parallel market, or, if he does not want to deal with jerry cans, trade the coupons for cash at more than Z\$80,000 per liter. By getting fuel coupons, the entrepreneur is no longer forced to take receipt of foreign exchange funds from abroad at the official exchange rate and thus almost triples the local currency value of the transfer. Embassy contacts report the market is flush with counterfeit Caltex coupons, which only compound the shortage.

12. (C) Another, albeit less reliable, money-making scheme is to use one of Zimbabwe's six stations designated to accept foreign currency) no questions asked. With foreign

currency bought on the parallel market at about Z\$85,000:USD, an informal fuel trader can tank up at one of these stations at a price of one US\$ per liter (US\$ 3.78 per gallon). The newly minted entrepreneur can resell the fuel on the street for as much as Z\$150,000 per liter) almost seven times the newly increased official price of Z\$23,300 per liter of diesel - turning a profit of up to US\$0.75 per liter on the parallel market.

13. (C) Larger-scale farms and business, however, have more complex ways of securing fuel, which involve ZANU-PF and NOCZIM insiders, according to Embassy contacts. Under these schemes, station owners with licenses to import fuel) or more commonly connections to someone with a license) import oil tankers from South Africa at a rate of US\$0.32 per liter at the border. These bulk dealers presell the fuel in large volumes at a rate of Z\$90-100,000 per liter, giving them a profit margin of as much as US\$0.85 per liter at the current parallel market exchange rate.

COMMENT

14. (C) There is no end in sight to Zimbabwe,s recurrent fuel crisis. The solution to intermittent fuel shortages lies in overall economic turnaround, which is highly unlikely given the GOZ,s refusal to reform. The GOZ, meanwhile, may have a cynical reason to perpetuate the fuel shortage. Access to fuel at cut-rate prices is almost certainly one of ZANU-PF,s patronage tools; Policy Implementation Minister Shamu, for instance, reportedly owns an indigenous oil distribution company. The crippling fuel shortages only reinforce the fact that ZANU-PF is the only game in town and that defection means losing access to valuable patronage. As with GOZ manipulation of the exchange rate, the fuel sector is subject to perverse incentives. Preferential fuel rates only divert effort to rent-seeking activities and give those lucky enough to benefit a vested interest in maintaining counterproductive economic policies.

15. (C) Testifying to Zimbabwean,s renowned passivity and the GOZ,s heavy-handedness, the populous has trudged onward with little overt protest against fuel shortages. Nevertheless, the lack of fuel is an issue that impacts most segments of society) even soldiers and police have to queue for ever longer periods of time to find transport. MDC leader Morgan Tsvangirai has attempted to highlight the GOZ,s shortcoming on this issue (septel), but it remains to be seen if the gas shortages will ignite the populous's latent discontent against the regime.
DELL